

ASEAN PORTS AND THE LIBERALISATION OF THE MARITIME TRADE SECTOR

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ABSTRACT

With regional liberalisation of trade and services being top on ASEAN agenda, steps are being taken to further liberalize trade and services sectors. This article explores ASEAN maritime logistic industry and analyzes how the liberalisation of maritime trade, and now, ASEAN economic integration, impacts on the conduct, structure and performance of ASEAN ports. Malaysian is chosen as a case study. This paper also looks at the opportunities and challenges face by ASEAN ports especially from the aspect of international cooperation, efficiency, environmental issues and restrictions and barriers.

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INTRODUCTION

The Association of Southeast Asian Nations (ASEAN) is a regional organization of ten Southeast Asian countries; Indonesia, Malaysia, the Philippines, Singapore, Thailand, Brunei, Cambodia, Laos, Myanmar (Burma) and Vietnam. ASEAN is the seventh largest economy in the world with an estimated population of around 625 million, almost 10 percent of the world population. True to its objectives, ASEAN promotes more economic integration between members and intergovernmental cooperation.

Most ASEAN countries are maritime economies. Of all the economic activities, it is difficult to imagine one more important to the prosperity of this region than maritime trade. Maritime trade is accountable for 80% of global trade. Global trade allows countries to enjoy goods otherwise unavailable to them and this is the backbone of modern lifestyle.

Ports, being an essential part of maritime trade, are tasked with the responsibility to move goods from one country to another. Ports are of great significance to nation as it promotes global trade and commercial welfare. The safety and security of a country also depended on the reliability of its port. If a port can be penetrated by negative elements like drug syndicate or terrorist group, the consequences will be very detrimental. The role of port as a crucial part of transportation service cannot be underestimated, as transport is essential for ASEAN's economic integration.

This article studies ASEAN ports and analyzes how the liberalisation of maritime trade, and now, ASEAN economic integration, impacts on the conduct, structure and performance of ASEAN ports. Malaysian is chosen as a case study. This paper also looks at the opportunities and challenges face by ASEAN ports especially from the aspect of international cooperation, efficiency, environmental issues and restrictions and barriers.

Background of ASEAN

In 1967, the Association of Southeast Asian Nations (ASEAN) was formed to improve regional bonds and economic cooperation. ASEAN encourages its member countries to be more united while respecting each other's sovereignty. It aspires to promote economic prosperity as reflected in the ASEAN Treaty of Amity and Cooperation (TAC) of 1976 that lays out the key principles of non-interference and cooperative dispute resolution for members.

The fundamental principles contained in the Treaty of Amity and Cooperation in Southeast Asia (TAC) of 1976 are as follow:

- Mutual respect for the independence, sovereignty, equality, territorial integrity, and national identity of all nations;
- The right of every State to lead its national existence free from external interference, subversion or coercion;
- Non-interference in the internal affairs of one another;
- Settlement of differences or disputes by peaceful manner;
- Renunciation of the threat or use of force; and
- Effective cooperation among themselves.¹

By 2016, ASEAN has grown to ten members with population of 626 million with an economy valued at \$2.4 trillion. Chachavalpongpan (2014) noted that as a result of ASEAN, member countries are inclined to solve conflicts and issues, even controversial ones like South China Sea using peaceful and amicable methods.

The European Union and ASEAN share similarities in that both are multinational groups in major regions seeking better integration. However, the level of integration in ASEAN is never intended to be comprehensive or in-depth. As comparison, the European Union has a supranational government with elected parliament and customs union, while ASEAN doesn't.

Basically, ASEAN 's main objective is to provide South-East Asian nations with a platform for economic and political co-operation (Herbig 1995:17) Contrary to European Union, ASEAN focuses more on economic cooperation than political or social integration.

Cooperation between ASEAN member states has large been very fruitful in various aspects, from economic to security. Storey (2012) stated that this can be seen in relation to the Maritime Straits Patrols by Malaysia, Indonesia and Singapore as the number of reported attacks fell from 187 to 2003 to merely 45 in 2009.

In 2003, the ASEAN leaders decided that an ASEAN Community should be established and it was then decided in 2007 that the establishment of such community must be accelerated by 2015. The ASEAN Community consists of 3 pillars; ASEAN Economic Community, ASEAN Political-Security Community and ASEAN Socio-cultural Community.

¹ <http://asean.org/asean/about-asean/#>

ASEAN Maritime Economy and Ports

In 1974, ASEAN Ports Association (APA) was formed as an alliance of port authorities. The objectives are to serve as the proper forum for exchange of information, harmonization of trade practices and facilitation of trade among ASEAN ports. By 2016, there are 47 selected ports in 9 ASEAN countries.

In 1992, ASEAN Free Trade Agreement (AFTA) was signed in Singapore. This trade bloc agreement was signed by ASEAN countries to support local manufacturing. The idea behind AFTA is to strengthen the position of ASEAN as a strong production base in the world market.

Prior to the formation of ASEAN Free Trade Agreement (AFTA) in 1992, ASEAN followed sectoral approach in dealing with transport cooperation whereby ports and shipping services were developed independently with little push for comprehensive transport model within the region. This is not surprising. Previous attempts to provide a common market in this region have failed as no other region of the world is as diverse culturally, historically and economically (Herbig 1995:19) (Cheong and Suthiwarnarueput 2015).

However, the situation changes after AFTA. AFTA seeks to increase ASEAN's competitive edge through the elimination of tariffs and non-tariff barriers and to invite more foreign direct investment.

This is followed by ASEAN Vision 2020 in December 1997. The vision is to have a single ASEAN community that live in peace, stability and prosperity. Closer economic integration is also part of the vision.

By November 2007, the vision is transformed into ASEAN Economic Blueprint with many benefits awaiting. ASEAN Economic Community (AEC) is an essential step for regional economic integration. The idea is for the creation of a single market across ASEAN. Currently, the huge market of ASEAN is largely untapped and the potential for the USD\$2.6 trillion market with over 600 million people is not being maximized. The creation of a single market and better cooperation between ASEAN countries will be very positive for the development of ASEAN maritime economy.

There are many benefits of liberalisation of maritime economy through ASEAN. According to S. Pushpanathan, Deputy Secretary-General of ASEAN for ASEAN Economic Community:

‘The logistics cost of intra-ASEAN container movement alone is estimated to be US\$2.25 billion a year (ASEAN Logistics Study, 2008), with about 55 percent representing out-of pocket costs (transport, terminal and access costs) and 45 percent time cost. Simulations to estimate the impact of implementing a logistics infrastructure blueprint that includes enhancing shipping modalities and improving land routes would basically reduce average logistics cost by 4 percent and logistics time by 9 percent. This is substantial- roughly about US\$ 140 million dollars in logistics costs reduction a year.’²

In order to proceed with a systematic timetable to further develop ASEAN ports and logistics, a Road Map was created. There are 5 key themes:

- Developing a single ASEAN voice
- Infrastructure

² http://asean.org/?static_post=asean-connectivity-and-the-asean-economic-community-by-s-pushpanathan-deputy-secretary-general-of-asean-for-asean-economic-community-2

- Integration
- Harmonisation
- Human resources and capacity development

The Following Specific Measures as Set Out in the Road Map:

Table 1

Infrastructure	<ol style="list-style-type: none"> 1. To review the list of ports in the ASEAN transport network 2. To compile a comprehensive database on ASEAN network ports 3. To identify shortfalls in ASEAN network port performance and capacity 4. To define agreed criteria and guidelines for assessing port development priorities, including the definition of acceptable performance criteria for ASEAN network ports. 5. To develop project priorities for bridging performance and capacity gaps in ASEAN network ports 6. To negotiate funding mechanisms to support the implementation of identified projects in the ports of less developed ASEAN nations 7. To ensure that all ASEAN network ports meet defined minimum performance criteria.
Integration	<ol style="list-style-type: none"> 1. Relax cabotage restrictions to allow ship of all ASEAN nations to carry international cargoes between the port or origin and a transshipment port where these two ports are in the same country. 2. Allow ASEAN ships primarily engaged in international trade but making a number of port calls in another ASEAN country to carry domestic cargoes between those ports of call.
Human Resources and Capacity	<ol style="list-style-type: none"> 1. Investigate skill enhancement requirements for ASEAN maritime operators and develop detailed training and development strategy 2. Establish centres of logistics excellence at selected tertiary institutions within ASEAN. 3. Establish regional centres of maritime excellence to provide advanced training in high technology aspects of maritime operations and specialized courses in areas such as port and shipboard security

Malaysia Maritime Logistics and Liberalisation

In order to develop Malaysia ports in a comprehensive manner, the Economic Planning Unit in the Prime Minister's Department was tasked to draw up a blueprint for the national port policy in 1987. The study outlines some recommendations and plans to develop ports in Malaysia. The essence of the original policy was port privatization and the creation of a strong national load center equipped with modern terminals facilities and with the capability to handle large container vessels.

Despite positive development and progress in certain area, there are many challenges and obstacles. In 2007, Malaysia's transport sector registered a deficit of USD 4.5 billion partly due to over reliance on foreign freight,

In the 9th and 10th Malaysia Development Plan (2006-2010 and 2010-2015), the shipping sector was not given adequate attention and allocation. There is also an unbalance reliance on foreign owned and registered ships. Currently, Malaysia domestics' cargoes are being handled mostly by foreign registered ships. By 2014, the General Cargo, Bulk Cargo and Container fleet tonnage falls to the levels of the 1980s.

The Malaysia Shipowners Association (MASA) has also previously pointed out that the local industry is suffering from rising operating costs and poor market conditions. Shortage of qualified local seafarers is another problem.

According to the World Bank, Malaysia's track record of growth has been less than impressive on certain area including import-export, container and bulk volumes and gateway, partly due to lack of integrated policy direction.

However, the achievement of Malaysia has been good in some aspects. Malaysia has been successful in increasing the volumes of its transshipment container. Port Klang and Port of Tanjung Pelepas are among the top 20 ports in the world (by way of throughput handled). Malaysia is also the world's 21st largest exporter while MISC is currently the world's largest operator of gas tankers. In term of market capitalization, MISC is the third largest shipping company.

In order to further develop Malaysia ports, Malaysia has requested the assistance of World Bank to develop Malaysia's National Port Strategy. According to Jonathan Beard, vice-president of IFC International (a company undertaking a research on World Bank's behalf), 'Malaysia lacks an explicit, deliberate planning and policy framework for ports at the national level. The Malaysian government wishes to address this, and specifically determine the role of the federal, regional, state, and local governments in regulating and promoting the development and growth of all types of ports, in line with goals set forth in the 10th Malaysia Plan.'³

Realizing the important of ports and maritime logistics in Malaysia, the Logistics and Trade Facilitation Masterplan was introduced in 2015. The purpose is to provide guidelines and strategy to improve the transport and trade facilitation mechanism specifically and the freight logistics industry generally.

Liberalisation has long been identified as one of the methods to improve Malaysia economy. Part of the efforts to improve the maritime economy in Malaysia is the introduction of the liberalisation policy. Liberalisation can be seen at three levels: (i) WTO level, (ii) ASEAN level and (iii) Bilaterals and regional FTAs.

There are many benefits of liberalisation if compared to protective attitude. Protective attitude will make ASEAN less attractive. Cheong and Suthiwartnarueput (2015:489)'s study concludes that less developed countries will usually try to maintain protective attitudes on services sector, and showed that in order to promote a large trading blocs, ASEAN must make more effort to consolidate internal economic integration via reform of services rather than focussing on possible long-term prospect with the AEC.

In the area of maritime trade, the benefits of liberalizing ASEAN ports have long been noted. Ishido and Fukunaga (2012:7) proposed that logistics and related services must be liberalized to expedite the construction of regional supply chains in East Asia.

Liberalisation is not new in Malaysia. Yean (2008) highlighted that Malaysia took advantage of economic globalization in the electronics sector by establishing free trade zones in the early 1970s.

Beside trade liberalisation, Malaysia also took advantage of ASEAN. For example, the ASEAN Ports Association (APA) is recognized by the Government of Malaysia as 'a body that coordinates activities and works for the interest of members ports in the ASEAN region with direct affiliation with the ASEAN.'⁴ APA (Malaysia) is under the Ministry of

³ Turloch Mooney, 'Malaysia study to focus on government role in port development' *Fairplay* 9 December 2015 via <http://fairplay.ihs.com/commerce/article/4258101/malaysia-study-to-focus-on-government-role-in-port-development>

⁴ <http://www.apamalaysia.com/about/mapa-history/>

Transport, Malaysia.⁵

There are many benefits of joining APA. For example, there are many training programs for the ASEAN port sector under the sponsorship of APA although the funding mostly come from the European Union.

Malaysia's FTA commitment at regional level can be seen in ASEAN Free Trade Area (AFTA). There are 3 component programmes under AFTA: (1) Common Effective Preferential Tariff (CEPT), (2) ASEAN Framework Agreement on Services (AFAS) and (3) ASEAN Investment Area (AIA).

In 1995, Malaysia signed the ASEAN Framework Agreement in Services (AFAS). The purpose of this agreement is to enhance and strengthen cooperation between service suppliers in ASEAN. In addition, the idea is to progressively eliminate unnecessary restrictions. Under the AFAS, initial negotiations centered on 5 sectors; transportation, telecommunications, financial services, tourism and professional business services. Through AFAS, broad guidelines are provided to ASEAN countries to liberalise their markets. This includes methods to improve market access and ensure fair and equal national treatment. Furthermore, rules for dispute settlements are also included.

The future prospect for Malaysia is positive. The liberalisation policy, the collective effort under aegis of ASEAN and new deals are expected to contribute positively to the development of Malaysia as a maritime nation.

In November 2015, a memorandum of understanding between Malaysia and China was signed to establish a port alliance between six Malaysian ports and 10 Chinese ports. Future mega project is expected.

THE OPPORTUNITIES AND CHALLENGES FACES BY ASEAN PORTS

ASEAN has already designated 47 ports as the main ports in the trans-ASEAN transport network. There are many challenges face by ASEAN ports. At the same time, many opportunities await.

Some of the challenges include great variation in port infrastructure quality and port performance, poor accessibility of gateway ports to land based transport, barriers in land transportation, inefficient customs procedures and inspections, regulatory barriers, infrastructure barriers, arbitrary ruling and lack of clear national policy. According to S. Pushpanathan, Deputy Secretary-General of ASEAN for ASEAN Economic Community:

'Obstacles to achieving effective and low cost maritime transportation in the region include the great variation in port infrastructure quality and port performance as well as the poor accessibility of gateway ports to land based transport. In ASEAN, Singapore and Malaysia's Port Klang have the most capable ports. The rest of the gateway ports are with considerable variation in their ability to handle cargo throughout.'⁶

Bookbinder and Tan (2003:55) suggested that the three main requirements for logistic excellence are deliberate investment and maintenance of distribution infrastructure, employment of business-friendly process and harmonious unions-employers relationship.

⁵ The 9-member countries of APA are Brunei Darussalam, Cambodia, Indonesia, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam. Each country must present a paper that will serve as the springboard for future development and cooperation among member countries.

⁶ http://asean.org/?static_post=asean-connectivity-and-the-asean-economic-community-by-s-pushpanathan-deputy-secretary-general-of-asean-for-asean-economic-community-2

De Souza et al (2007) proposes that inefficient customs procedures and inspections are the biggest barriers to logistics services in ASEAN, followed by barriers in land transportation. De Souza et al (2007:37) highlights that ‘maritime transport, an integral part of logistics services (shipping) in ASEAN, faces regulatory and infrastructure-related impediments that may affect operational efficiency and quality of services.’ The regulatory barriers noted in the study include cabotage regulations, cargo reservation law, ability of foreign maritime firms to access government owned port facilities, restrictions on foreign maritime firms to provide own or third party port-related services, regulations that allow foreign maritime firms to provide port-related services but subject them to foreign equity, nationality or licensing requirements, absence of general competition legislation in liner shipping and monopolized handling of cargo. The infrastructure barriers noted in the study include reliance on transshipment and feeder services, directional imbalance, inadequate warehousing and specialized storage facilities, inefficient ports such as inability to handle large cargo volumes and berthing challenges.

Gupta et al (2011) assesses the state of cross-border trade in logistics services among ASEAN and found that there are still barriers to free cross-border trade within ASEAN in the form of arbitrary rulings, lack of coordination and unwieldy customs procedures and inspections. The study concludes that these barriers must be addressed by ASEAN before freer cross-border trade is possible.

There are also challenges at country level but this can be overcome. For example, Thai and Grewal (2005) noted that ‘Vietnamese port system is burdened with outdated work practices, low efficiency and poor competitiveness compared to other ports in the region.’ However, since then, the development of Vietnam has been remarkable. For example, in 2016, it was reported that Japan is providing Vietnam with new loans amounting to more than \$781 million for the development of port and road infrastructure.

Hamanaka (2015:464) proposed that ‘the key issue policy makers confront today is how best to leverage international cooperation in areas such as physical infrastructure development, regulation, project finance, and private sector development.’ ASEAN is no stranger to regional cooperation. In 1980, ASEAN Resolution on Shipping and Trade was adopted at the 10th ASEAN Economic Ministers Meeting (AEM) that was held in Bangkok. The resolution was reaffirmed one year later in the next meeting in Indonesia. ASEAN also has good track record in attracting foreign investment and international cooperation.

Another challenge for ASEAN ports is to ensure comprehensive environmental protection. Shipping generates a range of atmospheric emissions and can result in oil spills and local damage to soil and wildlife around ports. (Lirn et al 2013:431).

As part of the effort to protect environment, it is essential to ensure sustainable port development in the ASEAN region. During the Fifth ASEAN Summit of 1995, ASEAN cooperation was focused on Safety of Maritime Transport and Prevention of Pollution from Ships as a theme issue.⁷

In 2010, the ASEAN Ports Association (APA) and German Technical Cooperation (GTZ) jointly implemented the “Sustainable Port Development in the ASEAN Region” project, designed to help selected ports comply with international environment and safety standards while improving their efficiency.⁸ This is a good example of how ASEAN ports can

⁷ <http://asean.org/maritime-sector-developments-in-asean-by-hr-vitasa-and-nararya-soeprapto/>

⁸ <http://www.greenport.com/news101/europe/asean-ports-get-sustainability-support#sthash.pIB7OTvn.dpuf>

benefit from collaboration and synergy.

CONCLUSIONS

The benefits of ASEAN and its massive contribution to the economy of ASEAN countries cannot be denied. Using ASEAN as a platform for regional economic cooperation has been a success, to a certain extent. The elimination of unnecessary trade barriers and the systematic plan to further develop ASEAN economic to make it more integrated will help to strengthen ASEAN as one of the leading world market. However, it is noted that there are still many challenges including great variation in port infrastructure quality and port performance, poor accessibility of gateway ports to land based transport, barriers in land transportation, inefficient customs procedures and inspections, regulatory barriers, infrastructure barriers, arbitrary ruling and lack of clear national policy. Once these challenges are settled, the prospect will be much better for ASEAN.

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